

## Appendix A

### Outline of Codes of Practice Key Changes and Messages

#### The Prudential Code

- The objectives of the Code (primarily affordability, prudence, and sustainability) have been strengthened regarding due diligence, local stewardship and risk, with the requirement for authority's appetite and risk management approach being proportionate to its overall level of resources. If need be, the Prudential Code should provide a framework to demonstrate where this might not be the case, so that an authority can take remedial action.
- The major change relates to the requirement for each authority to determine a capital strategy, setting out a long-term context in which capital expenditure and investment decisions are made. This is to demonstrate that the authority takes proper account of the requirements of the Prudential Code. (Some years ago the previous regulatory requirement regarding a specific capital strategy was abolished, and in effect the (then) provisions were incorporated into the Council's Medium Term Financial Strategy).
- The latitude for local authorities to set the scope and size of their capital plans remains unrestricted, but processes have been strengthened to set out greater consideration of prudence, with sustainability and risk reporting improved through governance procedures.
- The application of Borrowing in Advance of Need is retained. As before, authorities should not borrow in advance purely to profit from the investment of the extra sums borrowed.
- Various changes have been made to Prudential Indicator requirements, but focus remains on the longer term sustainability and risk of capital plans, and avoiding exposing public funds to unnecessary local or unquantified risk. It is reiterated that the revenue implications of capital expenditure plans are properly taken into account in the options appraisal process.

#### Treasury Management Code of Practice

- The introduction clarifies that the term "investments" used in the definition of treasury management activities also covers other non-financial assets that an organisation holds primarily for financial returns, such as investment property portfolios. It also clarifies that the key principle of control of risk and optimising returns consistent with the organisation's risk appetite should be applied across all investment activities, including more commercially based investments.
- Several changes have been made to Treasury Management Practice requirements, covering various legislation-backed requirements as well as risk management provisions. Required statements include:

"This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment."

“The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation’s inflation exposures.”

- A new section has been added covering investments that are “not part of treasury management activity”, such as property. Where organisations undertake such investments primarily for financial return, they should be proportional to the level of resources available to the organisation. It should ensure that the same robust procedures for the consideration of risk and return are applied to such investment decisions. They also need to be covered in the authority’s capital strategy. A schedule of all investments and liabilities (such as guarantees) is to be maintained.
- Previously the Code stated that overall responsibility for treasury management cannot be devolved, whereas the new Code states that “CIPFA believes that delegation of approval of the detail of the treasury management strategy and ongoing monitoring should be permitted where this facilitates more active discussion of the strategy and performance by those with the most appropriate skills and knowledge. Responsibility at all times, however, remains with full board/council who should have access to the full treasury management strategy, annual report and in year monitoring and the ability to seek clarification/ask questions.”